



CITY OF ATLANTA

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Council President Lisa Borders

TO: Honorable Mayor and Members of the City Council

FROM: Leslie Ward, City Auditor

DATE: April 24, 2006

SUBJECT: Review of Proposed Charter Amendment to Increase the Mayor's Procurement and Small Purchase Authority

Enclosed is a copy of the audit report and handouts we presented at the Finance/Executive Committee's work session April 19, 2006. We appreciate the courtesy and cooperation of city staff throughout the audit. We sent draft reports to the Department of Procurement and the Office of the Mayor April 12, 2006, and incorporated their comments into the presentation.

cc: Audit Committee
Lynette Young, Chief Operating Officer
Adam Smith, Chief Procurement Officer



Review of Proposed Charter Amendment to Increase the Mayor's Procurement & Small Purchase Authority

City Auditor's Office

Leslie Ward, City Auditor

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Audit Team: Richard Edwards, Ty Elliott & Melissa Davis

April 19, 2006



Presentation Agenda

- Background
 - Audit Initiation
 - Objectives
 - Scope & Methodology
- Council Review Thresholds
- Monitoring Outcomes
- Small Purchase Thresholds



Audit Initiation

- The Finance/Executive Committee Chair requested that we review proposed Ordinance 06-O-0380 to amend the Atlanta City Charter to increase the mayor's procurement authority from \$100,000 to \$1,000,000 and small purchase authority from \$20,000 to \$1,000,000.
- Committee members expressed concerns with the magnitude of the proposed change.



Audit Objectives

- What research and analysis did the Department of Procurement (DOP) use to arrive at the proposed increases?
- What are the advantages and disadvantages of raising the procurement and small purchase authority?
- What performance data for procurement activity should be reported to the council?



Audit Scope & Methodology

- Reviewed analysis prepared by DOP and the Atlanta City Charter along with proposed amendments (Article 3, Chapter 1, Section 3-104 (14) and Article 6, Chapter 4, Section 6-402).
- Compiled information to assess the effect of the proposed legislation on city operations and legislative oversight.

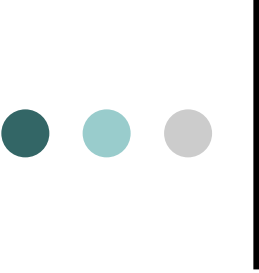
This audit was conducted in accordance with generally accepted government auditing standards except for completion of an external peer review. Our review is planned for later this year.



DOP's Justifications for Increasing the Council Review Threshold to \$1 Million

- “By increasing council’s review threshold to \$1 million, council retains review of the majority of contract spending.”
- “The million dollar review threshold will bring Atlanta in line with other major cities.”
- “Increasing council’s review threshold to \$1 million could save the city an estimated \$674,915 - \$1,734,314 in labor-avoidance costs.”

From the DOP Proposal for Procurement Code Revisions *Summary & Justification* 3/8/06



Council Would Review the Majority of Contract Spending

- We confirmed that increasing the threshold to \$1 million could decrease the number of contracts reviewed by approximately 70% while eliminating review of only 8.8% of the contract spending currently under council review
- This makes a persuasive case that council oversight could be more effective with enhanced focus on fewer contracts of larger dollar amounts

Raising the Council Review Threshold to \$1 Million Could Better Align Atlanta with Best Practice Cities

4 out of 5 “best practice” cities identified in the 2002 Process Review have higher council review thresholds than Atlanta’s council review threshold of \$100,000

Best Practice Cities	Council Review Threshold
Phoenix	\$40,000
Denver	\$500,000
Washington DC	\$1,000,000
San Francisco	\$10,000,000
Seattle	No Council Approval

Note: Highlighted cities also included in the 2002 Bain Benchmarking report



Comparison to Other Selected Cities Is Less Clear

- Added Charlotte from list of peer cities found in the 2002 Bain Benchmarking report
- Excluded other peer cities used in that report
- Also added several larger cities

Other Cities DOP Included	Council Review Threshold
Houston	\$25,000
Charlotte	\$100,000
New York	\$100,000
San Diego	\$1,000,000
Chicago	No Council Review



Labor-Avoidance Has Limited Impact

- DOP's labor avoidance estimates translates into annual procurement labor savings between 1 and 5 FTE (for preparing legislation)
- Procurement staff would be redirected, not reduced
- Estimated savings of \$674,915 - \$1,734,314 were not annual (based on data from 1/1/2002 to 8/1/2005)



Monitoring Outcomes

- The approach DOP is recommending is consistent with a recognized type of control and oversight
- The control focuses on monitoring outcomes instead of approving individual transactions
- Examples in private sector and governments outside the US



Advantages of Monitoring Outcomes

- Reduces unnecessary red tape from the procurement process
- Streamlines approval processes
- Increases time and resources to
 - Assess risks associated with specific groups of goods or services
 - Focus on strategic understanding of supply and demand

From the South Australia Procurement Board & the Canada Parliamentary Secretary's Task Force, Government Wide Review of Procurement



Monitoring Outcomes Requires Effective Performance Measurement

- Examples of performance measures that could be used by DOP include measurements developed by
 - International City Management Association (ICMA)
 - World Bank Round Table on Procurement
- DOP is already collecting data that could be developed into similar performance measurements to be reported to council
 - ATL-Stat
 - Legislative white paper
- Technology needed for efficient & reliable data collection

Increasing the Small Purchasing Threshold is Questionable

- The Procurement Process Review recommended a threshold of \$100,000
- No other comparison cities' thresholds are higher than \$100,000
- If adjusted for inflation, the city's threshold would be about \$67,000

City	Threshold
Phoenix	\$1,000
Houston	\$25,000
Denver	\$25,000
Seattle	\$39,000
San Francisco	\$50,000
San Diego	\$50,000
Charlotte	\$100,000
Washington DC	\$100,000
Chicago	\$100,000
New York	\$100,000

Note: Highlighted best practice cities



Reservations About Increasing the Small Purchasing Threshold above \$100,000

- Eliminates requirements for formal competitive process up to the threshold amount
- Unclear how EBO requirements will be affected
- Could detract from DOP's mission to promote equity, fairness, & economic inclusion



The Small Purchase Authority in the Proposed Charter Amendment Differs from the Procurement Code Revisions

- Ordinance 06-O-0380 to amend the Atlanta City Charter increases the small purchase authority from \$20,000 to \$1,000,000
- DOP's presentation to council on 3/8/06 proposed increasing the small purchase authority to \$500,000
- Proposed procurement code revisions refer to a small purchase authority of \$500,000
- Charter and code changes should be consistent

Tools for Performance Measurement of Procurement Processes

Process Indicator	Performance Data	Measures
1) Advertisement of bid opportunities	Percentage of open bidding practices	Fairness, openness and level of competition
2) Publication of awards	Percentage of contract awards (should be based on monetary threshold publicly disclosed)	Transparency of system
3) Time for preparation of bids	Average number of days between invitation to bid and bid opening	Fairness, competition
4) Bidder participation	Average number of bidders submitting a bid in each bid process	Effectiveness of competition and fairness
5) Bid acceptance	Average number of bids/proposal received that are responsive to requirements in bidding document	Efficiency and effectiveness
6) Method of Procurement	Percentage of usage for each authorized method of payment	Effective use of competition
7) Bid processing lead time	Average number of days from bid opening to the issuance of a contract award	Efficiency and Effectiveness
8) Cancelled bidding procedures	Percentage of bid processes declared null before contract signature	Fairness and efficiency
9) Protests	Percentage of bidding procedures with protests	Fairness
10) Resolution of protests	Percentage of protests resulting in modification to outcome of bidding process	Fairness and transparency
11) Contract Amendment	Average increase per contract awarded	Efficiency and effectiveness

Source: Nordic+ Procurement Group and OECD/DAC - World Bank Round Table

Tools for Performance Measurement of Procurement Processes

12) Contract dispute resolution	Percentage of contracts with unresolved disputes	Fairness, efficiency and effectiveness
13) Completion rate	Percentage of contracts resulting in full and acceptable performance	Efficiency and effectiveness
14) Late payment	Percentage of payments made late (e.g., exceeding contractually specified payment schedule)	Efficiency and effectiveness

ICMA – Center for Performance Measurement

Purchasing - Core Measures

1) Calendar Days from Requisition to Purchase Order: Informal bids
2) Calendar Days from Requisition to Purchase Order: Formal bids
3) Calendar Days from Requisition to Purchase Order: Existing Contracts
4) Percentage of Purchases Made, Reviewed, or Approved by the Central Purchasing Office from Minority-and/or Woman-Owned Businesses
5) Percentage of Purchasing Conducted with Purchasing Cards/Credit Cards
6) Number of New Transactions per Central Purchasing Office Staff FTE
7) Dollar Amount of Central Purchasing Office Purchases per Central Purchasing Office FTE
8) Dollar Amount of Non-construction Purchases through Central Purchasing Officer per Central Purchasing Office FTE
9) Number of Protests Filed and Sustained
10) Number of Protests Filed per \$25 Million Purchased
11) Internal Customer Satisfaction: Quality of Service
12) Internal Customer Satisfaction: Timeliness of Service

Source: International City/County Management Association (ICMA)